

COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 01-101

WESTERN MASSACHUSETTS ELECTRIC COMPANY

REQUEST FOR 2002 RATE CHANGE FILING

I. INTRODUCTION

Last year, Western Massachusetts Electric Company ("WMECO" or the "Company") received the Department of Telecommunications and Energy's ("Department") approval to increase its standard offer service ("SOS") rate by a fuel adjustment factor and, in order to mitigate that increase on overall rates, to reduce non-SOS rate components. These adjustments became effective on January 1, 2001. The net effect of these two adjustments was an increase in WMECO's total overall rates by 17.4 percent from year-2000 rate levels.

This year, WMECO is proposing to decrease its total overall rates by approximately 14 percent from year-2001 rate levels. This rate reduction is primarily due to the implementation of a lower SOS rate for 2002. The effect of WMECO's proposed year-2002 rates is a return to the rates customers experienced in year-2000.

WMECO believes that the decrease it is seeking is: (1) consistent with the Massachusetts Electric Utility Restructuring Act (Chapter 164 of the Acts of 1997) (the “Act”); (2) consistent with WMECO’s restructuring plan; and (3) conducive to promoting customer choice for WMECO’s customers.

The remainder of this document provides background on WMECO’s restructuring plan and explains WMECO’s rate proposal and rationale.

II. BACKGROUND

On September 17, 1999, the Department issued its decision on WMECO’s restructuring plan in D.T.E. 97-120 (“Order”). As part of that plan, WMECO requested and received approval to divest its generation facilities in compliance with the goals of the Act. To date, all of WMECO’s generation facilities have been divested and customers have received the benefits of these sales. In divesting these generating units, WMECO received a high value, in part due to the fact it did not require the new owners of the sold generation to supply its standard offer needs at pre-set prices. As approved by the Department, WMECO’s entire SOS needs would be procured from the wholesale power market through a competitive solicitation process. (Order, p. 190).

In 97-120, the Department provided a definition for efficient SOS as:

The standard offer service represents a regulated alternative to competitively procured electricity supplier for existing customers who do not choose another supplier. To prevent distortion in the competitive generation market, the price for standard offer generation ideally would be set in the following manner: first, the cost of providing standard offer generation would be

determined through a competitive auction with no set or capped bid prices; and second, the price for standard offer generation would be set to recover its cost, as determined by the unconstrained auction. If customers see the market-determined cost of standard offer generation, they are able to make choices between the distribution company's standard offer and competitive alternative based on efficient signal from the marketplace.¹

Additionally, the Department directed the Company to set its SOS retail price for each year that SOS is available at the wholesale supply price identified through the standard offer solicitation.²

Pursuant to the Order, WMECO solicited supply arrangements during the fall of 1999 for its 2000 standard offer supply requirements. While it was WMECO's desire to seek SOS supply for more than one year, it acquiesced to input from other parties to limit its Request For Proposal ("RFP") to one year. That solicitation was successful and produced a standard offer rate of 4.557 cents per kilowatt-hour for calendar-year 2000.

During the fall of 2000, WMECO again solicited offers for SOS for calendar-year 2001. On December 4, 2000, WMECO filed the results of its second SOS with the Department. That solicitation was successful and produced a standard offer rate of 7.258 cents per kilowatt-hour for calendar year 2001.

This fall, WMECO solicited offers for SOS for calendar-year 2002. On October 16, 2001, the Department approved WMECO's 2002 SOS supply contract. This successful solicitation had an average price of 4.829 cents per kilowatt-hour.

¹ Order, pages 170-171.

² *Id.*, page 191.

III. WMECO'S RATE PROPOSAL

The proposed decrease in rates reflects the lower cost of WMECO's competitively-procured SOS while restoring its transition charge recovery of stranded costs.

A. WMECO's Proposed SOS Price

As stated above, WMECO secured a contract for 2002 SOS at 4.829 cents per kilowatt-hour. Also included as part of the SOS price that customers will pay this year is a reconciliation of year-2000 SOS revenues and expenses of 0.012 cents per kilowatt-hour. This adjustment was calculated pursuant to WMECO's SOS tariff, MDTE No. 1025D. The calculation of the SOS price can be found in Attachment 9 of this filing.

B. Other Bill Component Changes

In 2001, in order to mitigate customers' bill impacts due to the higher SOS price, WMECO reduced its transition charge rate to 0.535 cents per kilowatt-hour, a level that provided for recovery of all principal and interest costs associated with the issuance of WMECO's rate reduction bonds (RRBs). In addition, this rate also enabled the recovery of all other non-securitized regulatory assets over the twelve-year period of the RRBs. This recovery did not result in additional deferrals, but was accomplished through realigning the amortization to a twelve-year period. For 2002, WMECO is proposing to increase its transition charge to 1.357 cents per kilowatt-hour.

In this filing, WMECO is proposing an adjustment to its transmission charge. Last year, the Department directed that congestion costs of 0.125 cents per kilowatt-hour be recovered as an adjustment to the Company's transmission rates. See, D.T.E. 00-110, December 29, 2000 Order, p. 6, FN 6. In keeping with that directive, WMECO calculated an adjustment to its transmission rates in accordance with its Transmission Cost Adjustment tariff, MDTE No. 1028B. Also included as part of this year's adjustment is the reconciliation of prior years' transmission revenues and expenses. WMECO's proposed transmission adjustment is 0.042 cents per kilowatt-hour and can be found in Attachment 10.

Other proposed rate changes include the statutorily-mandated reductions to the conservation and renewable charges.

C. Calculation of WMECO's Inflation Adjustment for 2002 and Beyond

While the Act permits inflation adjustments to overall rates, WMECO has elected not to seek such adjustment for 2002. During the coming year, WMECO will evaluate the need for and appropriateness of seeking approval for an inflation adjustment for 2003. If one is sought, WMECO intends to use the same inflation methodology used for 2000. That is, it will calculate its 1997 total rate, adjusted for inflation to 2003, and decrease it by 15 percent in accordance with the Act, net the effect of any standard offer service fuel adjustment. The Company has calculated inflation for calendar-year 2002 for demonstrative purposes in Attachment 3.

D. Consistency of WMECO's Rate Proposals with Its Approved Restructuring Plan

WMECO believes the proposed rate approach, as shown in Attachment 4, is consistent with the 15 percent reduction from inflation-adjusted, August 1997 rates, and reflects its market-determined cost of standard offer service. Based on the above, WMECO's proposal complies with the Act and the Department's policies and should be approved.

IV. PROPOSED TARIFFS

To implement the proposed decrease, WMECO calculated the total revenue target for each rate by using total rates which were set for year 2000. The next step was to adjust the Transition revenue target based on changes to the SOS, Transmission Charge, Renewables Charge, and Conservation Charge. Finally, the revenue target for each rate component for each rate was translated into rate design prices based on energy, demand and customer charges. These rate designs are shown compared to current rates on Attachment 5. Bill comparisons demonstrating the effect of the proposed rate reduction compared to current rates for standard offer service and default service customers are shown on Attachments 6 and 7. Calculation of proposed revenues and supporting workpapers are shown on Attachment 8.

For rates that remain bundled (Rates S-1, S-2, I-1, I-3, and PR), WMECO has made adjustments to return them to rate levels set in calendar-year 2000. In addition, for Interruptible Rates I-1 and I-3, the energy charges have also been adjusted by the

difference between the new standard offer service rate (4.841 cents per kilowatt-hour) and the price for interruptible service supply (4.420 cents per kilowatt-hour).

VI. CONCLUSION

WMECO believes that its proposed rate adjustments are a reasonable and appropriate means to incorporate its 2002 SOS supply contract in customer bills.